

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6398

BILL NUMBER: SB 365

DATE PREPARED: Jan 25, 2002

BILL AMENDED: Jan 24, 2002

SUBJECT: EDGE Tax Credits.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill expands eligibility for the Economic Development for a Growing Economy (EDGE) Tax credit by making the credit available for projects to retain existing jobs, as well as for projects to create jobs. The bill eliminates the requirement that an applicant for a job creation credit must verify that the applicant has considered locating the project in at least one other state. It allows a credit for job retention only if the taxpayer: (1) is engaged in research and development, manufacturing, or business services; (2) pays an average compensation that is at least the average compensation paid in the county; (3) plans to use the credit for facility improvements, for equipment and machinery upgrades, repairs, or retrofits, or for other direct business investments, including training; and (4) has at least 100 Indiana employees. The bill also for job retention credits, requires affected communities to match at least one dollar of local incentives for every three dollars in EDGE credits.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Currently, only businesses creating new jobs may apply. Under this proposal, businesses that would preserve jobs may also apply. This broader eligibility may expand the applicant pool, creating additional demands on the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources.

The State Budget Agency (SBA) is also required to certify that EDGE credit awards will provide an overall positive fiscal impact to the state. An expanded applicant pool may increase the number of EDGE studies performed by the SBA, however, the impact is not expected to be significant.

Explanation of State Revenues: (Revised) The original goal of the EDGE program was to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses receive

credits based on the individual income taxes withheld for employees filling the newly created positions. However, the total amount of credits granted cannot exceed the total amount of withholding taxes generated. Since taxes paid for these employees would not have been collected in the absence of the new development, the state would not incur a net loss by redistributing incremental income tax revenue as EDGE credits. Currently, applicants must verify that at least one other state is being considered for the firm's location and that a significant cost disparity exists between siting in Indiana versus the other state. This proposal would remove these requirements for EDGE applicants when proposing to create new jobs.

This bill also extends eligibility for EDGE credits to businesses that, in the face of economic incentives offered by at least one other state, elect to retain employment in Indiana. No credits can be claimed for jobs that have been relocated from one site within Indiana to another. In addition, the eligible business must meet certain conditions, including:

- (1) being classified as engaged in research and development, manufacturing, or business;
- (2) providing compensation equal to the average compensation in the county where the firm is located; and
- (3) employing at least 100 individuals in Indiana.

The amount of EDGE credits granted would be based on, but not limited to, the total withholding taxes for employees whose jobs are being retained. The EDGE Board would have final approval of the actual amount. No new revenue would be realized since no new jobs would be created. Credits would then be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to these businesses. However, if the firm chose a more profitable alternative and moved out of Indiana, there could be an even greater loss of revenue from the reduction in individual and corporate income taxes.

EDGE credits may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years, and if the amount exceeds a taxpayer's liability in a given year, the excess is refundable. From January through October of 2000, the EDGE Board approved \$63 M in new credits (to be taken over several years) for 16 companies with the expectation of 6,202 new jobs being created. As of March 30, 2001, the IDOC estimates that approximately \$17.3 M in credits may be taken in the 2000 tax year for all projects approved from 1994 to date.

Both individual and corporate income taxes are distributed to the General Fund. A percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. This bill may impact revenue collections beginning in FY 2003.

Explanation of Local Expenditures: (Revised) For EDGE credits to be granted for job retention, the bill requires political subdivisions to have matched a minimum of one dollar in local incentives for every three dollars in EDGE credits. Local incentives may include cash grants, infrastructure improvements, tax abatements, investments in facility rehabilitation, training, and construction.

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, EDGE Board, State Budget Agency.

Local Agencies Affected:

Information Sources: Christina Casper-Cozzolino, Indiana Department of Commerce, (317) 233-3397.